



STANDARD PRACTICE MANUAL

Utility Audits, Risk and Compliance Division
Utility Audits Branch
January 2023



A digital copy of this report can be found at:
<https://www.cpuc.ca.gov/about-cpuc/divisions/utility-audits-risk-and-compliance-division/utility-audits-branch>

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INTRODUCTION

The California Public Utilities Commission (CPUC) regulates utilities across industries that provide some of the most essential services that drive California's economy. The CPUC is responsible for ensuring that all Californians have universal and equitable access to safe and reliable infrastructure and clean, affordable utility services.

Article XII Section 6 of the California Constitution authorizes the CPUC to establish rules, examine records, and prescribe a uniform system of accounts for all private companies under its regulatory jurisdiction, including electric, gas, communications, water, railroad, rail transit, and passenger transportation companies. A five-member Commission, appointed by the Governor and confirmed by the Senate, provides the regulatory framework for utility companies on behalf of California ratepayers to protect consumers and ensure the provision of safe, reliable utility service and infrastructure at reasonable rates, with a commitment to environmental enhancement and a healthy California economy.

The CPUC has established processes and rules to carry out these vital policies across each industry it regulates. The CPUC's industry divisions facilitate the development and implementation of various rules and regulations relating to rate setting, safety requirements, environmental enhancement goals, and reporting of required information for monitoring purposes. The CPUC has the authority to inspect the accounts, books, papers, and documents of any regulated utility company at any time pursuant to PU Code section 314 (a).

The CPUC regulates various utility industries, including but not limited to:

- Investor-owned electric and natural gas utilities
- Communications companies
- Investor-owned water and sewer utilities
- Rail and passenger transportation.

The CPUC's Utility Audits Branch (UAB) (formerly known as Utility Audit, Finance and Compliance Branch (UAFCB)) performs external audits and attestation engagements on behalf of the CPUC to ensure that regulated utility companies implement programs governed by the CPUC and/or funded by California ratepayers in compliance with applicable laws, regulations, and CPUC's directives.

UAB established this Standard Practice Manual to address the requirement enacted in PU Code section 314.6 (d) which states the following:

Beginning January 15, 2020, and every year thereafter, the commission shall post on its internet website its standard practice audit manual, titled Utility Audit, Finance and Compliance Branch UAFCB Audit and Attestation Standards Practice, and updates to that manual, if any.

The main objectives of the Standard Practice Manual are to:

- highlight types of audit engagements performed within UAB
- outline statutory requirements and auditing standards for each type of engagement
- provide program overview for audit services provided, and
- ensure transparency of audit services to stakeholders and the public.

UTILITY AUDITS BRANCH

Background

UAB carries out audit responsibilities on behalf of the CPUC to confirm that utility implementation of various programs complies with applicable laws, regulations, and CPUC's directives. UAB performs a variety of external audits and attestation engagements of energy, telephone, water, and sewer utility companies consistent with statutory requirements to assist the CPUC in safeguarding ratepayer-funded programs and protecting interests of Californians. UAB's auditing services bring transparency and accountability of the utility programs the CPUC regulates and provides critical input to the CPUC industry divisions and decision makers on ways to improve various programs' implementation and oversight. UAB performs most of its audits and attestation engagements in accordance with generally accepted government auditing standards (GAGAS), which require to plan and perform an audit to obtain sufficient, appropriate evidence to provide a reasonable basis for any findings and conclusions based on the audit objectives. UAB staff members have diverse backgrounds, professional certifications, and auditing and technological expertise, which allow UAB to deliver high-quality auditing services to the CPUC and various stakeholders. UAB is a branch within the Utility Audits, Risk and Compliance Division (UARCD).

UAB audit reports can be accessed via the following links:

[Audit Reports by Industry](#) or [Audit Report by Year](#)

Those audit reports that are not posted on the CPUC website due to confidentiality can be made available via a Public Records Act Request by accessing the link below:

<https://publicrecords.cpuc.ca.gov/>

Mission

UAB delivers professional auditing services and effective solutions that enhance the transparency, accountability, and performance of California's regulated utilities.

Vision

Be a trusted and reliable resource to the Commission and California ratepayers.

Values

Accountability: Take ownership and assume responsibility for our actions and work products.

Excellence: Take pride in our work and deliver high quality, well-supported, evidence-based work products in a timely manner. Strive for continuous improvement.

Integrity: Behave professionally; uphold ethical principles; treat everyone with courtesy and dignity; and build relationships based on trust. Foster environment of diversity, collaboration, and respect.

Open Communication: Exchange information in a timely and transparent manner. Communicate with others with an open mind, positive attitude, and respectful manner.

Stewardship: Commit to safeguarding ratepayers' funds, make responsible decisions, and be vigilant with our resources.

Modernization of Statutory Audit Requirements

UAB performs its audit services under the general authority outlined in Public Utilities (PU) Code sections 314, 314.5, and 314.6.

In 2022, the CPUC proposed modernization of the statutory audit requirements outlined in PU Code sections 314.5, 792.5, and 274, which mandate various audit obligations for the CPUC. With Legislature's approval, the amendments to the audit requirements became effective September 6, 2022, which modernized the CPUC's oversight of the regulated entities and facilitated the implementation of effective risk-based audit methodologies. These amendments will allow the CPUC to utilize a more effective and practical approach in dedicating its audit resources to those programs and utility companies that have the greatest potential impact to California ratepayers. Implementation of such risk-based methodologies will ensure the CPUC continues meeting its mission to protect the interests of California consumers and ratepayers.

Engagement Types

The following table summarizes the utility/program type, the statutory requirements for the engagement, and the type of engagement (including the applicable auditing standards) to which UAB adheres when performing its audit services:

Utility/Program Type	Statutory Requirement	Type of Engagement
Balancing Accounts	PU Code sections 792.5, 314.5, 314.6, 581, 582, and 584.	GAGAS – Performance Audit
Communication Programs (PPP)	PU Code sections 274, 314.5, 314.6, 581, 582, and 584	GAGAS – Performance Audit
Energy Programs	PU Code sections 314.5; 314.6, 581, 582, and 584 and various CPUC decisions	GAGAS – Performance Audit
Energy Procurement	PU Code sections 314.6, 451, 454, Decision (D.) 03-12-062, and D.04-02-040	GAGAS –Agreed-Upon Procedures
Small Water and Sewer (Class B, C, and D), and Class A Water Utilities	PU Code sections 314.5, 314.6, 581, 582, and 584	GAGAS –Review of Financial Statements or Review of Financial Schedules
Supplier Diversity GO 156 (Energy, Water, and Communication)	PU Code section 314, GO 156 section 9.1.10, and D.11-05-019	GAGAS – Performance Audit
Special Engagements	Various Decisions or PU Code sections	Determined as needed and identified in each engagement's report

UAB primarily focuses its audit resources on the following programs and utility companies:

- Performance audits of balancing accounts for energy and water utility companies – determine whether transactions recorded in the accounts are accurate, allowable, and supported with appropriate source documentation; and whether the accounts are established and maintained as required by applicable PU Code sections, CPUC directives, orders, rules, regulations, and the utilities' policies and procedures.
- Performance audits of energy utility companies and various energy programs – determine whether program expenditures are accurate, allowable, and supported by appropriate source documents; and whether program activities are carried out in compliance with applicable laws and regulations.
- Performance audits of communication carriers and Public Purpose Programs' costs and activities – ensure ratepayer-funded programs are implemented and funds are expended in accordance with applicable regulatory requirements.
- Reviews of financial statements/schedules of water and sewer utility companies – determine whether any material modifications need to be made to the financial statements/schedules filed by utilities that could potentially impact water and/or sewer rates for California ratepayers.
- Agreed-upon procedure engagements of energy utility companies – determine whether specified energy procurement transactions and activities reported to the CPUC comply with the applicable laws, regulations, and CPUC directives.

PROGRAM OVERVIEW

Balancing Accounts

The CPUC has a responsibility to authorize the rates that regulated utilities may charge their customers. Considering that the rates are derived from projected costs and projected consumption of service, the CPUC authorizes regulated utilities to establish balancing accounts to serve various rate making purposes. The primary purpose of a balancing account is to ensure that a utility recovers its CPUC-authorized revenue requirement from ratepayers for a given program or function, but not more or less. Balancing accounts track the actual costs and the related revenues the utilities collect from ratepayers for specified activities. The difference, whether positive or negative, will be considered by the CPUC for appropriate adjustment or other action at the time of any subsequent rate adjustment.

Every balancing account has a Preliminary Statement found in the tariff book of its respective utility detailing the purpose of the balancing account, the types of costs and/or revenues that are to be tracked in the account, and the specific accounting procedures that the utility must follow to record transactions in the balancing account.

Pursuant to PU Code section 792.5, UAB reviews or audits all balancing accounts periodically utilizing a risk-based approach to ensure that the transactions recorded in the balancing accounts are for allowable purposes and are supported by appropriate documentation. UAB's completed audits help ensure that the balancing accounts operate within the context of regulatory requirements and promote accountability for utility companies to report accurate and complete information to CPUC decision-makers.

UAB conducts performance audits of the balancing accounts in accordance with GAGAS.

Communication Public Purpose Programs

The CPUC mandates and administers various Public Purpose Programs (PPP) for the purpose of making basic communication services affordable to California customers. These programs are funded by surcharges on communication services from customer billings and provide subsidized telephone and broadband services and special equipment to qualified carriers and individuals. PPPs include:

- California LifeLine Program (formerly known as Universal Lifeline Telephone Service): provides discounted home phone and cell phone services to qualified households.
- Deaf and Disabled Telecommunications Program (DDTP): provides telecommunications devices to deaf or hearing-impaired consumers and consumers with other types of disabilities.
- California High-Cost Fund-A (CHCF-A): provides subsidies to 13 small local exchange carriers (LECs) for providing telephone service to residential customers in rural high-cost areas.
- California High-Cost Fund-B (CHCF-B): provides subsidies to carriers of last resort (COLRs) for providing telephone service to residential customers in rural high-cost areas.
- California Teleconnect Fund (CTF): provides a discount on advanced communication services to schools, libraries, hospitals, and other non-profit organizations.
- California Advanced Services Fund (CASF): supports the deployment of broadband facilities and the adoption of broadband services in unserved and underserved areas through project specific grant funding.

To ensure the availability and effectiveness of affordable services to Californians, the CPUC uses the PPP surcharges assessed, collected, and remitted by communication carriers to fund and implement these PPPs in an accountable and transparent manner. To ensure transparency and effectiveness, the CPUC requires periodic audits of PPP-related costs and revenues in accordance with PU Code sections 274 and 314.5.

UAB utilizes a risk assessment methodology to target its audit resources toward conducting audits of high-risk communication carriers and program-related costs and activities to ensure carriers and program implementers carryout the program responsibilities in accordance with applicable guidelines and regulations and program funds do not get mismanaged or misused. Other than program revenues, costs, and activities, UAB also audits telecommunication carriers' user fees collected and remitted to the CPUC ensuring sufficient funding of CPUC operations.

UAB conducts performance audits of PPP-related revenues, costs, and activities in accordance with GAGAS. PU Code sections 274, 314.5, 314.6, 581, 582, and 584 authorize the CPUC to conduct the audits of the PPPs.

Energy Programs

The CPUC authorizes set budgets annually toward a variety of energy programs funded by a small portion of electricity and gas rates included in ratepayer bills and administered by the four largest California energy utility companies: Pacific Gas & Electric (PG&E), Southern California Edison (SCE), San Diego Gas and Electric (SDG&E) and Southern California Gas Company (SoCalGas). Many of these programs consist of specific activities and measures that help meet energy savings goals and transform technology markets within California. UAB conducts a variety of energy program audits to assist the CPUC in performing quality assurance and policy oversight functions necessary to ensure that specific program results are accurate and effective, and that ratepayer funds are being spent and managed in a responsible and productive manner.

UAB conducts the energy program audits based on risk assessments and pursuant to PU Code section 314.5, various CPUC decisions, and at the request of the CPUC's Energy Division. Over time, UAB has performed a variety of energy program audits including, but not limited to, Energy Efficiency (such as Codes and Standards, Non-Resource, and School Stimulus), Energy Savings Assistance, California Alternate Rates for Energy, Code of Conduct, and various other incentive and rebate programs.

The primary goal of energy program audits is to ensure that the utilities' implementation of program policies and spending of program funds are in accordance with all applicable CPUC guidelines and directives. UAB conducts performance audits of these programs to determine whether the utilities are in compliance with applicable program guidelines, rules, regulations, and whether the specific program expenditures are incurred for allowable purposes and supported by appropriate documents. UAB conducts these performance audits in accordance with GAGAS. PU Code sections 314.5, 314.6, 581, 582, 584, and various CPUC decisions authorize the CPUC to conduct audits of the energy programs.

Energy Procurement Quarterly Compliance Report

The CPUC requires the three largest California electric utility companies (PG&E, SCE, and SDG&E) to submit Quarterly Compliance Reports (QCR) for all energy (electricity and fuel gas) procurement transactions of less than five years duration executed in a calendar quarter for purposes of monitoring compliance with the regulatory framework established in various CPUC decisions and directives for energy procurement planning and implementation. The CPUC implemented this regulatory framework to ensure that energy utilities implement their energy procurement activities using the least-cost best-fit approach that would not have adverse effects to ratepayers.

Each quarter, PG&E, SCE, and SDG&E each submit a QCR filed in a tier-2 advice letter for the CPUC's approval. In accordance with D.03-12-062 and D.04-02-040, the CPUC's Energy Division requests UAB to conduct quarterly energy procurement audits to verify whether the energy procurement transactions and activities reported to the CPUC in the utilities' QCRs are following the established upfront and achievable standards contained in the CPUC-approved Bundled Procurement Plan, relevant energy procurement state laws and regulations, and CPUC directives.

UAB conducts quarterly Agreed Upon Procedures (AUP) engagements in accordance with the agreement established between UAB and Energy Division. UAB conducts the AUP engagements in accordance with GAGAS. PU Code sections 314.6, 451, 454, D.03-12-062, and D.04-02-040 authorize the CPUC to conduct the reviews of the QCRs.

Water and Sewer Utilities

The CPUC is responsible for overseeing the regulated public water and sewer utilities that provide water and sewer services to California consumers. The regulated water and sewer utilities are classified as follows:

- Class A Utilities – more than 10,000 service connections.
- Class B Utilities – between 2,001 and 10,000 service connections.
- Class C Utilities – between 501 and 2,000 service connections.
- Class D Utilities – less than 500 service connections.

The CPUC requires all regulated water and sewer utilities to file an Annual Report with the CPUC. The Annual Reports contain various required financial information that could help CPUC decision makers during the rate making process, and to evaluate the utilities' performance and compliance. These Annual Reports also provide transparency to the public regarding the water and sewer utilities' financial positions.

Pursuant to PU Code section 314.5, UAB utilizes a risk-based approach for reviewing or auditing high-risk water and sewer utilities to determine whether the Annual Reports submitted to the CPUC contain accurate financial information in accordance with the accounting framework prescribed by the CPUC's Uniform System of Accounts. For regulatory purposes, UAB also verifies the water and sewer utilities' compliance with certain regulatory requirements including, but not limited to, timely filing of their Annual Reports and obtaining proper authorization from the CPUC before incurring any long-term debts.

UAB performs reviews of 1) selected financial schedules contained in the utilities' Annual Reports for Class A water utilities, and 2) financial statements for Class B, C, D water and sewer utilities in accordance with GAGAS. The purpose of these reviews is to either 1) provide an independent assessment of whether an entity's reported financial information is presented fairly in accordance with recognized criteria, or 2) express a conclusion about whether any material modification should be made to these companies' Annual Reports (financial schedules for Class A utilities, and financial statements for Class B, C, and D water and sewer utilities) or other types of financial information.

PU Code sections 314.5, 314.6, 581, 582, and 584 authorize the CPUC to conduct audits or reviews of the water and sewer utilities.

Supplier Diversity Program

The CPUC oversees the Supplier Diversity program, established in General Order (GO) 156 in 1986 that outlines the specific guidelines and framework of fair procurement practices that encourage and promote the award of a portion of total utility contracts to women-owned business enterprises (WBE), minority-owned business enterprises (MBE), disabled veteran-owned business enterprises (DVBE), and lesbian, gay, bisexual, and/or transgender-owned business enterprises (LGBTBE), collectively referred to as WMDVLGBTBE. The main goal of the program is to increase participation of WMDVLGBTBE in procurement of contracts from utilities. The Supplier Diversity program is a voluntary program that promotes and monitors procurement from WMDVLGBTBE. Each participating utility reports annually to the CPUC on its procurement performance and its plans for future improvements. These Annual Reports provide the CPUC with information that enables monitoring of diverse procurement practices across the state.

To assist the CPUC in monitoring the participating utilities' program performance and progress in achieving the Supplier Diversity procurement goals, UAB conducts performance audits of participating utility companies to determine whether reported procurement expenditures are reported accurately, supported by appropriate source documents, and in compliance with applicable guidelines.

UAB conducts performance audits of utilities' annual reports, encompassing energy, telecommunication, and water industries, with respect to their supplier diversity procurement in accordance with GAGAS. PU Code sections 314, 581, 582, 584; D.11-05-019 OP 3; and GO 156, section 9.1.10 authorize the CPUC to conduct these audits.

Special Engagements

UAB may perform special engagements for the CPUC based on pressing needs or high-priority requirements. For these types of engagements, UAB will determine and specify in the engagement reports the specific audit objectives, relevant criteria, engagement types (i.e., performance audits, reviews of financial statements, attestation engagements, etc.), and the auditing standards followed.